

87th Legislative Session – 2012

Committee: Joint Appropriations

Thursday, February 16, 2012

P - Present
E - Excused
A - Absent

Roll Call

P Wismer
P Dennert
P Sutton
P White
P Dryden
P Bolin
P Romkema
P Deelstra
P Peters
P Novstrup (Al)
P Heineman
P Haverly
P Juhnke
P Putnam
P Carson
P Tidemann
P Wink, Vice-Chair
P Brown, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Chairman Corey Brown.

Department of Revenue

Andy Gerlach, Secretary of Revenue, appeared before the Joint Appropriations Committee to present the department's proposed FY13 budget request. Also in attendance were Dave Wiest, Joan Serfling, Candy Holbrook . Documents No. 1-3 was distributed.

The department's proposed budget request totals \$60,656,730 and involves \$1,065,917 in general funds, \$459,590,813 in other funds and 245.5 FTEs. This budget represents a \$790,889 increase over FY12. The majority of the increase, \$656,364, is in personal services for salary policy and reflects an increase of \$111,225 in general funds and \$679,664 in other funds.

Secretary Gerlach said over \$33 million of the FY13 recommended budget is for the Lottery retailer commissions, lottery prizes and gaming revenues. The \$9 million in grants goes primarily to the City of Deadwood for gaming.

Secretariat:

The division's budget totals \$3,617,176 with 37.5 FTEs. This division is funded by other funds (Sales and Use Tax Collection Fund and State Motor Vehicle Fund) and the proposed \$100,918 increase is for salary policy and computer and space billings.

Business Tax Division:

The division's budget totals \$3,398,443 with 47.0 FTEs. This division is funded by other funds (Sales and Use Tax Collection Fund) and the proposed \$93,191 increase is for salary policy and computer and space billings.

Secretary Gerlach said sales and use tax makes up two-thirds of the general fund. The state has seen a 4% increase, specifically throughout the agricultural industry; however, large retailers and construction numbers are up as well.

In response to Senator Sutton's question, Secretary Gerlach said South Dakota's tax structure compares fairly close to that of our neighboring states. The streamlined sales tax gives South Dakota a good gauge in what others are charging. South Dakota has been at the 4% sales tax rate since 1969.

Motor Vehicles Division:

The division's budget totals \$5,266,041 with 46.0 FTEs. This division is funded by other funds (State Motor Vehicle Fund) and the proposed increase of \$92,933 is for salary policy and computer billings.

Secretary Gerlach told the Committee the state collected approximately \$152.2 million in motor fuel revenue in 2011, up from \$148.4 in 2010. Deputy Secretary Wiest said the federal government imposes the federal fuel tax which is collected at the refinery and sent directly to the federal government. The State Motor Fuel Tax (22 cents) is collected at the pipeline terminal and is sent to the Department of Revenue.

Property & Special Taxes:

This division's budget totals \$1,065,917 with 14.0 FTEs. This division is funded entirely with general funds and the proposed increase of \$111,225 involves salary policy, computer billings, renewal of a contract with SDSU for the AgLand Study (\$31,063) and a bank tax audit contract

(\$50,000). Secretary Gerlach explained that the department had asked for and received two additional FTE in 2008 to look at bank franchise tax. However, the positions proved difficult to fill and remain vacant. The department is proposing to contract with an individual to assist the department in reviewing the bank franchise tax issue. Senator Tidemann asked about the length of the bank audit contract. Secretary Gerlach said the contract is for one year; however, the department would like it to be for several years because of the complexity of the issue.

Senator Putnam asked if the department kept track of complaints resulting from property assessments. Deputy Secretary Dave Wiest said they do review minutes from meeting resulting from such complaints; however, they have never analyzed the complaints to find out how many are complaining about the assessment of their ag land.

Audits Division:

This division's budget totals \$3,871,956 with 55.0 FTEs. The division is funded by other funds (Sales and Use Tax Collection Fund and State Motor Vehicle Fund) and the proposed increase of \$284,251 is for salary policy and computer billings.

S.D. Lottery:

The Instant & On-Line Operations budget totals \$30,424,144 with 21.0 FTEs. This division is funded by other funds (Instant and On-line). Prizes make up the majority of the \$29,208,582 operating expense. South Dakota recently went to a \$2.00 Powerball option; had they not; they would have been out of the multi-state pact. In response to Senator Putnam's question, Secretary Gerlach said there is a cap on the Powerball fund.

In response to Senator Haverly's question, Secretary Gerlach said South Dakota gets a percentage of the Powerball funds; however, because the option started in January of 2012, they are unable to give a revenue estimate at this time.

The Video Lottery budget totals \$2,512,012 with 9.0 FTEs. This division is funded by other funds (Video Lottery). Secretary Gerlach said the department has been working hard to improve video lottery after the smoking ban. Monthly video lottery net machine revenue dropped drastically from March 2011 to June 2011 and then again in December 11 to January 2012. Currently there are 9,500 machines in South Dakota and 971 have the new line games. New machines, and the addition of the new line games, are an investment of the establishment owner. Many machines are old and in need of replacement; however, a new machine can cost anywhere between \$8,500 and \$12,000, depending on the features. In response to a Committee question, Secretary Gerlach said the department has had numerous meetings with casino owners regarding increasing the split percentage and some of those meetings have brought forth legislation. Representative Bolin asked if the department makes the new games available to old players or is it marketing the new games looking for new players. Secretary Gerlach said the two play hand in hand; operators that are looking at it from a business perspective want to market it for new players.

Senator Putnam referenced the Video Lottery Condition Statement and asked why receipts are remaining the same but disbursements are not. Ms. Serfling said in the \$5 million disbursements in 2010 were because the lottery purchased a new system that will provide better information from the establishments and projections for FY11 and FY12 were higher than expenditures. The 2014 expenditures will likely go back to the 2011 level. The department has seen a 15% decrease in video lottery revenue (\$90 million). Senator Tidemann asked about prior year's revenue. Secretary Gerlach said from the mid-1990's to 2008 there was a steady increase in video lottery. It leveled off between 2009-2010 it leveled off and then dropped after the smoking ban went into effect in 2010.

Commission on Gaming:

This budget totals \$10,501,041 with 16.0 FTEs. The budget is funded with other funds (Deadwood gaming). South Dakota gets 8% plus a machine fee from Deadwood gaming revenue.

Representative White asked what control South Dakota has over the Reservation casinos. Secretary Gerlach said the state has oversight on the number of machines, and betting limits, but has no control over smoking. Senator Putnam asked about collecting sales tax on food and beverages at the reservation casinos. Secretary Gerlach said they have gaming and tax collection agreements with all Tribes except for Lower Brule and everything is negotiated as to what they want to include and how much. The department also has gaming compacts with all tribes except Cheyenne River because they do not have a casino. Deputy Secretary Wiest said states are not permitted to share in any revenues from Indian gaming.

Staff Recap on the Budget

Legislative Research Fiscal staff, Fred Schoenfeld, Annie Mehlhaff, Terry Miller, Aaron Olson and Sue Cichos, met with the Joint Appropriations Committee to present a budget recap. Documents 4 (Sources and Uses Scorecard) and 5 (FY13 General Bill Summary) were distributed. Mr. Schoenfeld described the documents as tools available to the Committee to help analyze the budget. Discussion followed as staff answered Committee questions in regard to the documents.

MOTION: TO APPROVE THE MINUTES OF JANUARY 12, 2012

Moved by: Sutton
Second by: Putnam
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF JANUARY 23, 2012

Moved by: Sutton
Second by: Haverly
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF JANUARY 31, 2012

Moved by: White
Second by: Tidemann
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 8, 2012

Moved by: Bolin
Second by: Haverly
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 9, 2012

Moved by: Dennert
Second by: Putnam
Action: Prevailed by voice vote.

MOTION: ADJOURN

Moved by: Dryden
Second by: Deelstra
Action: Prevailed by voice vote.

Barb Bjorneberg
Committee Secretary

Corey Brown, Chair